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11 January 1949

Weekly Intelligence Summary No. 45

SECTION I. SUMMARY OF TRENDS AND DEVELOPMENTS

The rehabilitation of the world's railway systems is still primarily dependent on the production and distribution of rolling stock. World production of locomotives and freight cars increased in 1948 and will increase still further in 1949. As a result, the world-wide backlog of construction orders will be considerably reduced by the end of the year. Due to increasingly efficient use of limited rolling stock and acquisition of replacement stock in units of greater capacity, many railway systems are now able with less equipment to haul tonnages approximating or exceeding those of prewar years. The world demand for motor vehicles will continue in 1949 to exceed supply. Motor vehicle production increased about 12 percent during 1948 and may be expected to increase still further in 1949. Interaction of supply and demand, however, will be subject to many of the same economic dislocations which will affect railroad equipment production. (Item No. 1, C)

Increasing concern over Communist penetration into the ranks of Uruguayan waterfront workers is shown in the recently reported Government refusal to allow a Polish vessel to dock at Montevideo. (Item No. 2, B)

The Saudi Arabian ban on Royal Dutch Airlines (KLM) operations through Dhahran after 15 January adds another Arab State to those applying sanctions against the Netherlands as a result of Dutch action in Indonesia. (Item No. 3, C)

Czechoslovakia is attempting to obtain aircraft, including four-engine types, from the Israeli Government. This transaction would circumvent the US determination to prevent aircraft and aircraft parts reaching the USSR and its Satellite States. (Item No. 4, A)

Flights of the Sino-Soviet airline into Sinkiang Province have recently been increased from one a month to two a week. (Item No. 5, B)

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SECTION II. CURRENT DEVELOPMENTS

SURFACE TRANSPORTATION

1. The rehabilitation of the world's railway systems is still primarily dependent on the production and distribution of rolling stock. This process continues to be retarded by complex factors which are keeping supply and demand out of normal alignment. On the supply side, production capacity, except for diesel-electric locomotives, would be sufficient to meet even today's abnormal requirements. However, arbitrary allocation of labor and raw materials to higher priority industries in some of the most important manufacturing areas prevents the industry from developing its potential. On the demand side, critical requirements are frequently not translated into purchases because of: (a) arbitrary governmental allocation of stringent foreign exchange to other import requirements; and (b) in the case of ECA recipient countries, priorities which are established from the point of view of broad program objectives rather than the requirements of an individual industry.

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2. Increasing concern over Communist penetration into the ranks of Uruguayan waterfront workers is shown in the recently reported Government refusal to allow a Polish vessel to dock at Montevideo. The action, unusual in international maritime relations, was reportedly taken because of pro-Communist activities by the vessel's personnel on previous calls

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at this port. While the Uruguayan action is likely to draw sharp protests from Poland, it will probably not result in parallel Polish reprisals in view of the virtual absence of Uruguayan shipping from overseas trade. [redacted]

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CIVIL AVIATION

3. The Saudi Arabian ban on Royal Dutch Airlines (KLM) operations through Dhahran after 15 January adds another Arab State to those applying sanctions against the Netherlands as a result of Dutch action in Indonesia (See TG Weekly No. 44). KLM will probably attempt to withdraw its five Constellations and two DC-4's, now in the Far East, before the Saudi Arabian deadline blocks their passage through Dhahran. Although the Egyptian Government has not suspended KLM's landing rights, the company has discontinued its flights to Cairo because it has been barred from the lucrative traffic in the Persian Gulf area, without which operations to Cairo are no longer profitable. [redacted]

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4. Czechoslovakia is attempting to obtain aircraft, including four-engine types, from the Israeli Government. This transaction would circumvent the US determination to prevent aircraft and aircraft parts reaching the USSR and its Satellite States.

Czechoslovakia urgently needs new aircraft to replace the rapidly deteriorating equipment now in use on its international routes. Failure to obtain new equipment will result in the early grounding of all Czechoslovak international air services. (Despite this serious situation, Czechoslovakia is pressing for air rights to permit the development of scheduled services through the Middle East to India. Such a long-haul route could only be profitably operated with four-engine aircraft.)

A former high official of the Czechoslovak Ministry of Foreign Affairs has revealed that after finding all other markets for four-engine aircraft closed, the Czechoslovak Government recently sounded out the Israeli Government through the Israeli Ambassador in Prague, with a view to obtaining such transport types. The Israeli representative agreed to explore the possibility.

There may be some connection between the Czechoslovak aspirations and Israeli President Weizmann's recent request to the US Government for authority to purchase and export a Douglas Skymaster (C-54) for his forthcoming visit to the US. In view of the strong material support rendered by Czechoslovakia to Israel during the crucial months of the

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Arab-Jewish war and the close continuing relations between the two countries, there is a distinct possibility that Israel will sell Czechoslovakia either new aircraft purchased legitimately in the US or surplus Israeli aircraft, some of which were acquired in violation of the UN truce.

The Israeli Government is estimated to have the following aircraft in outright ownership or under its direct control:

Constellations	- at least 1, possibly 3
C-54's	- 2 or 3
C-47's	- 12
C-46's	- 5

If Czechoslovakia had applied pressure on Israel during the heat of the war in Palestine, there is little doubt that it could have obtained options for four-engine aircraft on substantially its own terms, in view of the sorely needed munitions and fighter aircraft Czechoslovakia was supplying Israel. Now, however, Israel can take advantage of its relatively secure position to extract the maximum advantages from any transport aircraft sale. [REDACTED]

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5. Flights of the Sino-Soviet airline into Sinkiang Province have recently been increased from one a month to two a week. This eight-fold increase in frequency over the route connecting Moscow with Hami (via Alma Ata-Ili-Tihwa) accompanies the growth of Soviet political influence throughout Sinkiang [REDACTED]. Soviet domination of the airline has permitted only nominal Chinese participation in the so-called "joint" enterprise. In September 1948, therefore, the Chinese Government denounced the ten-year old agreement, but it appears the denunciation was simply a face-saving gesture that will not hamper the continued Soviet air penetration of the Province. [REDACTED]

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